IMANET-CMA[Q&As]

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QUESTION 1

The profitability index approach to investment analysis

A. Fails to consider the timing of project cash flows.

B. Considers only the project\\'s contribution to net income and does not consider cash flow effects.

C. Always yields the same accept/reject decisions for independent projects as the net present value method.

D. Always yields the same accept/reject decisions for mutually exclusive projects as the net present value method.

Correct Answer: C

The profitability index is the ratio of the present value of future net cash inflows to the initial net cash investment. It is a variation of the net present value (NPV) method and facilitates the comparison of different-sized investments. Because it is based on the NPV method, the profitability index will yield the same decision as the NPV for independent projects. However, decisions may differ for mutually exclusive projects of different sizes.

QUESTION 2

The breakeven point (rounded to the nearest dollar) for Barnes Corporation for the current year is

A. $148,341

B. $636,364

C. $729,730

D. $181,818

Correct Answer: B

Fixed costs total $350,000. Variable costs total $675,000. Given sales of $1 1500,000, the contribution margin is $825,000 ($1 ,500,000 -- $675,000). Thus, the contribution margin percentage is 55% ($825,000 ?$1,500,000). Dividing the $350,000 of fixed costs by 55% produces a breakeven point of $636363.64.

QUESTION 3

Gars Company, a retail store, is considering forgoing sales discounts to delay using its cash. Supplier credit terms are 2/10, net 30. Assuming a 360-dayyear, what is the annual cost of credit if the cash discount is not taken and Gary pays net 30?

A. 24.0%

B. 24.5%

C. 36.0%

D. 36.7%

Correct Answer: D

On a $1 .000 invoice, the company could save $20 by paying within the discount period. Thus, hand immediate payment of $980 would save the company $20, and the interest rate charged for holding $980 an I additional 20 days (30-- 10) is 2.04% ($20 + $980). Because the number of 20-day periods in a year is 18 (360 + 20), [he annual rate is 36.7% (18 x 2.04%).

QUESTION 4

Jasper Company has a payback goal of 3 years on new equipment acquisitions. A new sorter is being evaluated that costs $450,000 and has a 5-year life. Straight-line depreciation will be used; no salvage is anticipated. Jasper is subject to a 40% income tax rate. To meet the company\\'s payback goal, the sorter must generate reductions in annual cash operating costs of

A. $60,000

B. $100,000

C. $150,000

D. $190,000

Correct Answer: D

QUESTION 5

The following information regarding inventory policy was assembled by tee WE Corporation. The company uses a 50-.week year in all calculations.

Sales	12,000 units per year
Order quantity	4,000 units
Safety stock	1,500 units
Lead time	5 weeks

The reorder point is

A. 5 .500 units

B. 2,700 units

C. 1,200 units

D. 240 units

Correct Answer: B

The reorder point equals the inventory to be sold during the lead time plus any safely stock. If the weekly sales are 240 units (12,000 ?50 weeks) and the lead time is 5 weeks, sales during the lead time should be 1,200 units. Adding the 1,200 units of expected sales to the 1,500 units of safely stock produces a reorder point of 2,700 units\\'